

SENATE OFFICE OF OVERSIGHT AND OUTCOMES

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Schools misappropriating millions meant to feed low-income students as state struggles to identify and control cafeteria fund abuse, report finds

SACRAMENTO – California school districts are illegally dipping into student meal funds, misappropriating millions of dollars intended to feed the state’s poorest children, according to a new report by the Senate Office of Oversight and Outcomes.

The California Department of Education recently ordered eight districts to repay nearly \$170 million to their student meal programs. But these cases may represent only a fraction of a larger problem, the Senate Oversight Office found. Department officials concede they have no idea how widespread cafeteria fund misuse may be.

The report, “Food Fight: Small team of state examiners no match for schools that divert student meal funds,” is available [here](http://sooo.senate.ca.gov/reports1) (<http://sooo.senate.ca.gov/reports1>).

In each case, the funds involved were supposed to be spent primarily on free and reduced-price meals that experts say are frequently the best and often the only complete meals that many low-income children receive in a given day.

Food service operations and the expenses charged to cafeteria accounts are reviewed by a team of fewer than 60 state examiners who oversee nearly 3,000 school districts, child and adult care facilities and other food-serving operations. The examiners are mostly nutritionists and dietitians, not accountants. The oversight system also is set up to be collaborative, with prearranged inspections of food service operations. Perhaps as a result, most of the recent investigations were triggered by whistleblowers rather than the state’s reviews.

In the biggest case, state officials identified more than \$158 million in misappropriations and unallowable charges that Los Angeles Unified School District drained from its cafeteria fund over a six-year span.

The department also disallowed cafeteria fund charges at a dozen other districts, including San Diego, Santa Ana, San Francisco, Baldwin Park, Centinela Valley and Compton. San Diego and

Santa Ana are challenging the department's findings, which would force the districts to repay \$4.5 million and \$2.7 million, respectively.

Cafeteria fund diversions contributed to conditions that discouraged the target population – low-income students – from seeking free or reduced-price meals, some school officials warned. Cost-saving shortcuts included serving processed rather than fresh foods, short lunch periods and inadequate staffing.

Los Angeles Unified, which has 20- and 30-minute lunch periods at many schools, continues to struggle with low participation rates among students eligible for subsidized meals.

Federal regulations require student meal funds to be maintained in a separate account and used only for “the operation or improvement of such food service.” When federal, state and other food service revenues are held in the same account, as they are in most districts, all of the funds are subject to the federal restrictions.

The U.S. Department of Agriculture provides most of the meal subsidies, sending more than \$2 billion a year to California for the National School Lunch Program, breakfast, after-school and snack programs, as well as commodities used in student meals. California provides another \$145 million a year. The combined funds help pay for 2.4 million free and reduced-price lunches every day.

Deliberate misuse of cafeteria funds is a crime, although rarely, if ever, prosecuted. Federal law provides up to a \$25,000 fine and/or five years in prison, for “willful misapplication” of cafeteria funds.

In response to the recent rash of cases, the state Department of Education moved in June to increase the role and presence of its own auditors in regular reviews of food service programs. For the first time, the department's auditors also will help train the frontline staff who conduct those reviews.

The nonpartisan Office of Oversight and Outcomes was created in 2008 by Senate President Pro Tempore Darrell Steinberg (D-Sacramento) to bolster the Senate's ability to measure government performance.